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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

Appraisal of Central American Republics

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2 July 1968
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APPRAISAL OF CENTRAL AMERICAN REPUBLICS

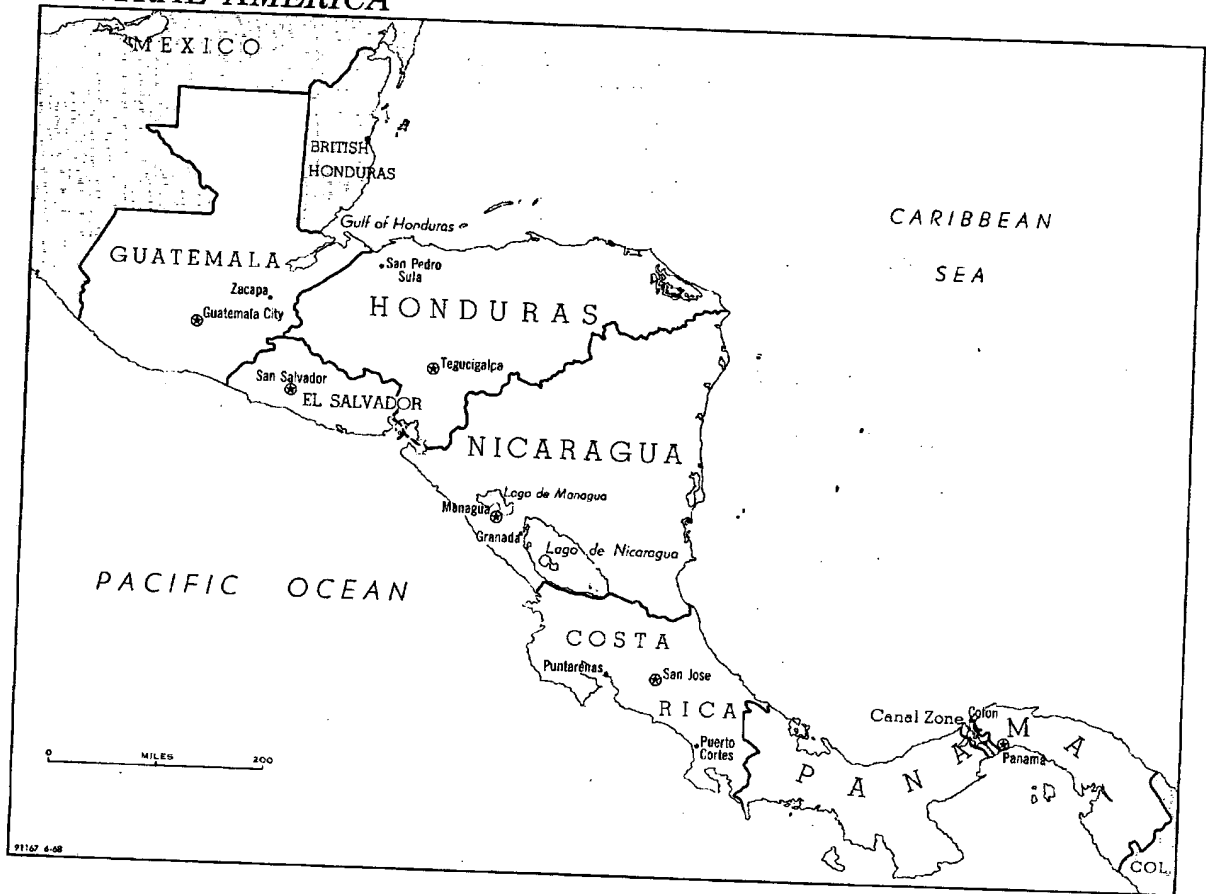
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CENTRAL AMERICA



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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
2 July 1968

INTELLIGENCE REPORT

APPRAISAL OF CENTRAL AMERICAN REPUBLICS

Introduction

The five republics of Central America have an area and a population about equal to those of California. Although ancient civilizations thrived there and contacts with Western culture are four-and-a-half centuries old, Central America is one of the least developed areas in the world. Its inhabitants, a mixture of Indian, European, African, and Asian, generally have poor health and little education. They are technologically retarded and culturally backward, buffeted by forces from the outside they seldom comprehend. Their economy is still largely colonial or precapitalist. The frailty of government institutions and the depravity of political practices have given several of these states the contemptuous name of "banana republic."

Recent trends in Central America point to great improvements in living standards and more political consciousness. Education is doing much to acquaint the ruling classes with the forces that are dominating the world. The middle sectors are growing in power and ambition; even some of the long-dormant rural masses are being Westernized. Although the traditional landed aristocracy and moneyed soldier-politicians are still conspicuous and ultimately direct the republics, they are on the defensive.

Note: This report was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Economic Research, the Biographic Register of the Central Reference Service, the Office of National Estimates, and the Clandestine Services.

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One of the most interesting features of recent Central American history has been the groping for reunification. The first attempt at unification began shortly after independence in 1821 when the Confederation of Central America was formed. By 1839, however, the confederation had broken up as each country sought its independence. In 1907, the republics vowed not to interfere in each others affairs, to scorn rulers who came into power by violence, and to establish an international court of justice, which actually functioned uncertainly until 1918. This commendable program soon became a trash pile of broken promises and unratified conventions, but in 1923 the republics again pledged their attachment to it. Little improvement could be recorded thereafter; yet in 1951 representatives of the various states gathered in El Salvador to reiterate their desire to strengthen ties, avoid conflict, and solve their common problems. Talk of a customs union, standardized law codes, highways, and a University of Central America aroused hopes. In 1955 the five countries established an Organization of Central American States (ODECA) within the framework of the Organization of American States and the United Nations. ODECA is responsible for regional health, education, and political cooperation. In June 1961 the Central American Common Market (CACM) came into force. It is a system for uniting and developing the economies of the member states. Panama is not a member of CACM but does attend most meetings as an observer and is a member of several noneconomic ODECA organizations. Mexico is not a member of either CACM or ODECA.

The following is a current appraisal of the political and economic situation in each of the five republics plus a short personality sketch of each of the presidents and their wives. Also included is a brief description of the Central American Common Market.

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COSTA RICA

Political

1. President Jose Joaquin Trejos, who narrowly won election to a four-year term in February 1966, finds the opposition's control of the legislature a bar to significant progress. His election followed the regular postwar pattern in Costa Rica whereby the presidency has changed hands between the country's single largest party, the National Liberation Party (PLN) founded by Jose "Pepe" Figueres, and other groups, which in this instance backed Trejos. Despite the present political stalemate, advance maneuvering for the 1970 elections, and the urgency of economic and social problems, Costa Rica enjoys a stability unique in Central America as the only country with a real commitment to political democracy and social advancement.

2. The politically inexperienced, business-oriented Trejos, a former mathematics professor, has been further handicapped by the shakiness of the coalition that elected him--a marriage of convenience between the parties of two former presidents, Calderon and Ulate. Calderon has already given indications that he wishes to run for another term, and Ulate has moved to loosen his ties with the Trejos government.

3. Figueres' PLN, while obstructing Trejos, has its own problems. Its defeat in 1966 created internal bitterness. Differences between Figueres and other veteran party leaders on the one hand, and the younger politicians on the other, have grown with the approach of the next elections. Figueres has already publicized his desire for another nomination, and has the reluctant support of important party faithful. Others will almost certainly challenge this bid. Figueres' serious personal financial problems may lead him to extraordinary alliances in return for financial support. His search for political support, [redacted]

[redacted] has already led him to make a deal with the small Communist Party. Whether

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or not this happens, Figueres' opponents are accustomed to saddle him with charges of being soft on Communism, and will certainly do so again.

Economic

4. Costa Rica's economy is growing rapidly. In both 1966 and 1967 its growth rate of over eight percent ranked second for all of Latin America. Land and income are more broadly distributed than in neighboring states, resulting in the presence of a strong middle class. Social services are well developed.

5. The country faces many threats to its prosperity, however. The economy continues heavily dependent on two products, coffee and bananas, which account for two thirds of all exports. Fluctuating prices of these two commodities, plus a rising level of imports, have caused severe balance of payments problems. A de facto partial devaluation was put into effect in 1967 and IMF aid was obtained, but the country's foreign reserve status remains fragile. In addition, the failure of tax revenues to keep up with mounting expenditures on social benefits have brought continued inflationary pressures. In response to pressure from the IMF and members of the Central American Common Market, the government is trying to speed tax collections and sell bonds to meet its most urgent needs. All services are under acute strain from the population growth rate of about 3.8 percent--one of the world's highest.

6. Despite Trejos' announced intention to revamp traditionally paternalistic economic policy and to emphasize the private sector in making economic progress, the political stalemate has allowed for few program changes. Import duties continue to account for over half of the government's total revenue. Tax rates are the same for individuals and corporations. Tax incentives for new industry have cost the government substantial revenues, and the industries attracted so far have not produced much in the way of export earnings.

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7. Costa Rica's principal foreign economic ties are those of the International Coffee Agreement and the Central American Common Market. Trade with Communist countries is insignificant--under 9.5 percent of total exchange--but the government explores these markets when coffee surpluses are on hand.

International Relations

8. Costa Rica's normally excellent relations with the United States were enhanced by President Trejos' visit to Washington in early June 1968. Some government leaders may nevertheless remain suspicious that the US prefers the opposition PLN and its internationally known leader, Figueres. Although endorsing the idea of regional economic integration only reluctantly and tardily, Costa Rica has been in the forefront in signing the various Central American Common Market protocols. Relations with Nicaragua, which usually encounter difficulties when the PLN is in power because of old animosities between that party and the Somoza family, have been good under Trejos. Costa Rica has long been an ardent supporter of the OAS, which twice (1948 and 1955) acted to halt exile invasions from Nicaragua. Costa Rica contributed a contingent to the Inter-American Peace Force in the Dominican Republic in 1965.

9. Of the Communist countries, only Czechoslovakia and Poland have commercial missions in San Jose, and the Polish ambassador resident in Mexico handles diplomatic relations for both nations. Costa Rica occasionally receives trade missions from other Communist countries, but negotiations rarely go past the exploratory stage.

Subversion

10. The principal subversive group is the Communist Party, which is illegal but operates under the name of the Popular Vanguard Party (PVP). This Soviet-aligned, nonviolent party has about 5-6,000 members. It is now trying to organize a

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new front party, called the Workers, Peasants, and Intellectuals Bloc, which it hopes to register for participation in the 1970 legislative elections. Although the PVP has eschewed violence as a tactic, at least 31 party members have received guerrilla training in Cuba, and four have received sabotage and paramilitary training in the USSR. The PVP is currently having difficulty in controlling a Cuban-oriented breakaway party called the Authentic Revolutionary Party. This group of extremists has been growing slowly but steadily, and has a potential for subversion. In addition, Marcial Aguiluz' small Socialist Action Party is pro-Castro and revolutionary.

11. There are also four private militia groups whose loyalty to the government is doubtful in times of crisis--as over a dispute election. A PLN Security Group has an estimated strength of 1,000 men, which is balanced by the combined strength of three rightist units that owe allegiance to individuals rather than to any party--the Free Costa Rica Movement, the 11th of November Group, and a force behind Deputy Frank Marshall.

12. There are a significant number of anti-Somoza Nicaraguan exiles, some of them pro-Communist, in Costa Rica. Like other Central American extreme leftists, they have received small amounts of money, materiel, and logistic support from the PVP, but their efforts are pointed toward Nicaragua.

Public Forces

13. Costa Rica has no regular armed forces. Responsibility for maintenance of law and order is vested in forces organized under four separate ministries of the government. Most important, and the only one with any military capability, is the 1,700-man Civil Guard under the Ministry of Public Security. The rapid population growth and increase in crime has pressed the Civil Guard to its maximum capability to perform routine police duties. During the 1966 elections, however, the guard quite skillfully prevented large demonstrations from getting out of hand. The 800-man Treasury Police

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Force is responsible for controlling contraband and countering subversive activities, and outside the national and provincial capitals the town and village police maintain order. A large turnover of personnel in all the forces normally occurs following each national election. The USAID-supported public safety program is trying to help the government establish a truly professional police force.

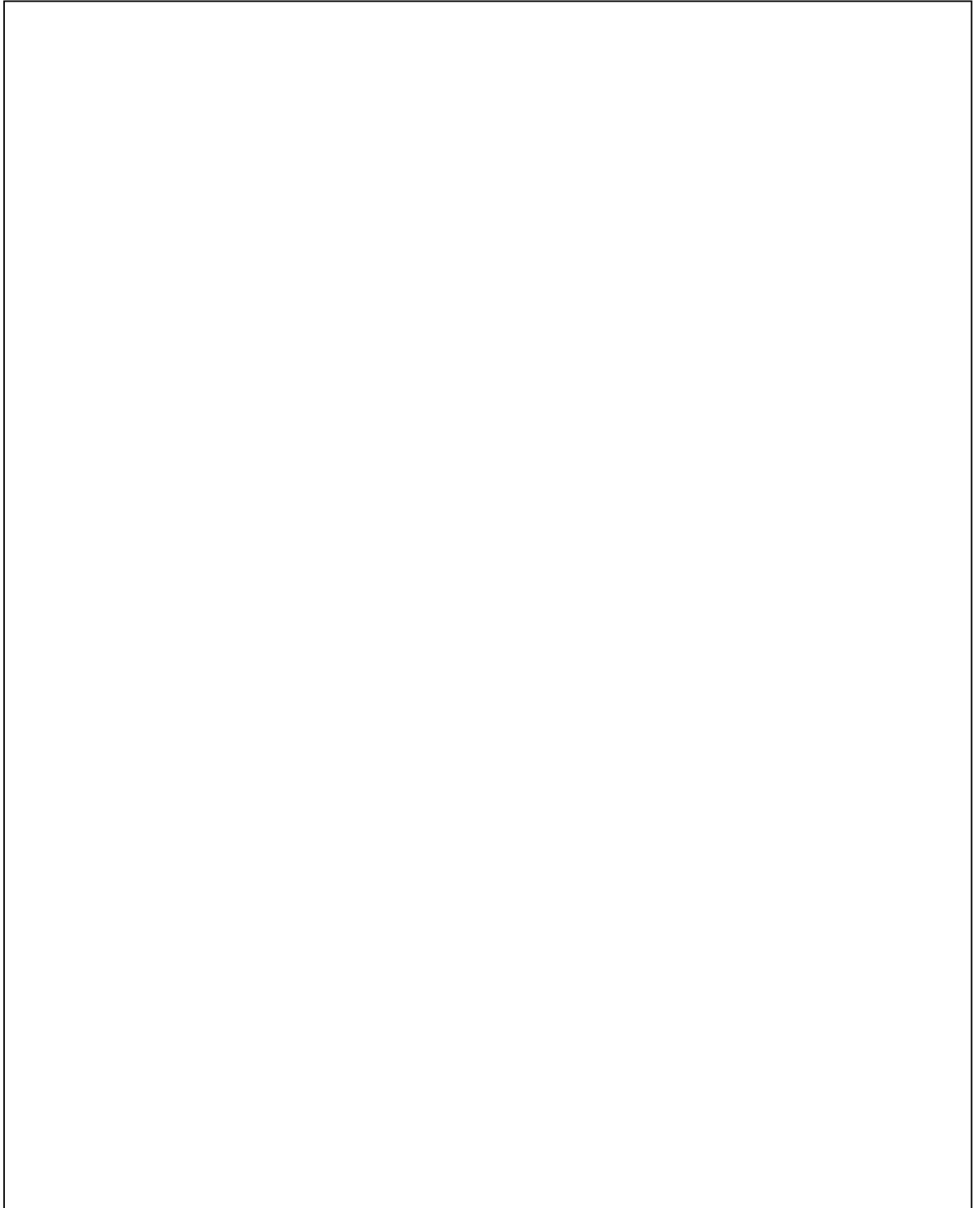
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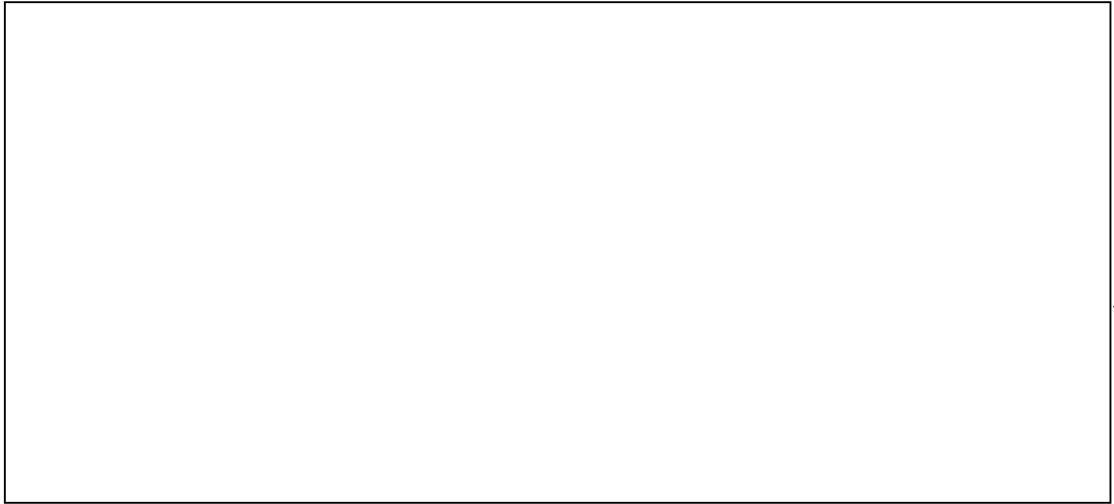
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EL SALVADOR

Political

1. President Fidel Sanchez Hernandez, who was inaugurated for a five-year term on 1 July 1967, has continued the pattern set by his predecessor and mentor, Julio A. Rivera, in stimulating substantial democratic growth in El Salvador. Sanchez and Rivera, both military men, have encouraged civilian participation in government.

2. A moderate, President Sanchez retains the military backing that is essential for political stability. His political strength, however, has been eroded by the reformist Christian Democratic Party (PDC). Sanchez' military-led, seven-year-old National Conciliation Party (PCN) fell short of a majority of the popular vote for the first time in the March 1968 congressional and municipal elections. The PCN obtained 48 percent of the vote in the notably free and open contest, compared with 43 percent for the PDC. The government majority in the 52-seat unicameral legislature was reduced by four seats and the Christian Democrats now hold 19 seats to 27 for the government. PDC gains at the municipal level were also impressive; it swept seven of 14 department (state) capitals and the three largest cities, retaining control of the capital, San Salvador.

3. Some hard-liners in the military would probably prefer some form of repression against the PDC rather than risk a possible victory by that party in any upcoming elections. So far, Sanchez and other soft-liners have prevailed in insisting on free elections. The powerful conservative oligarchy is almost uniformly hostile to the PDC.

4. In its first year, the Sanchez regime was hampered by a shortage of money--available government funds had been largely spent prior to his inauguration last July--and by preoccupation with the elections that took place in March of this year.

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Despite a vocal commitment to reform, his regime has proceeded cautiously, in part because of opposition by conservatives of the elite oligarchy.

5. The government probably will find itself increasingly caught between mounting reform pressures and entrenched conservative interests, which will oppose needed tightening of tax collection. In addition, military support could wane if the President fails to respond adequately to the armed forces' desire to modernize with new equipment purchases. The army, since its inept mobilization during a border clash with Honduras in mid-1967, has been acutely conscious of its tarnished image.

Economic

6. Salvadoran growth, after a spurt in the early 1960s, has leveled off somewhat. Aggregate GNP growth in 1967 was about four percent, compared with an average of nearly seven percent from 1962 to 1964, 5.4 percent in 1965, and 4.3 percent in 1966. Projected credit inflows and improved exports, which may be likely after two years of bad weather, combined with prudent government policy, should allow the economy to regain momentum and achieve a growth rate in the neighborhood of six percent by 1969. The balance of payments should be achieved without severe pressure on foreign reserves.

7. The slowdown after 1965 was partly a result of lower prices for coffee--the country's principal export--a reduction in cotton production, and declining public investment. El Salvador's coffee problems are complicated by its quota under the International Coffee Agreement (ICA) which covers only about three quarters of the country's production. A request to ICA for an increase in the Salvadoran quota is still pending.

8. El Salvador's economic problems are intensified by its high birth rate--nearly 4.5 percent in 1967--contributing to a population growth rate of 3.5 percent and the consequent population

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problem. The country is already the most densely populated continental country in the Western Hemisphere, with over 380 persons per square mile. There is little land remaining to be put into agricultural production. The present uneven distribution of income will probably become even more pronounced if the population growth rate continues unchecked. Demographers of the United Nations estimated in 1965 that the population could increase by 50 percent by 1980. Because of the controversial social implications of a birth control program, however, the government has so far failed to place its full support behind a family planning program.

International Relations

9. El Salvador's principal international problem stems from the border dispute with neighboring Honduras. Border skirmishes in May of 1967 resulted in about 40 Salvadorans being captured by Honduras and several Hondurans being taken by El Salvador. Most of the prisoners are still being held. Progress toward a solution to the prisoner and border problem has been complicated by El Salvador's legalistic approach. Rumors of troop movements somewhat increased tensions in June, but neither side is likely intentionally to provoke a confrontation.

10. El Salvador has generally cooperated closely with other Central American countries. In the past year, there have been occasional disputes with Nicaragua and mutual allegations of violations of territorial waters, but defense ministers recently met to settle the problem. El Salvador's political tradition leans toward Central American integration and it supports strengthening the Central American Common Market (CACM). As recently as 26 June, the minister of economy glorified the CACM and pressed for approval of the pending 30-percent tariff surcharge on imports into the CACM--the so-called San Jose protocol. He compared Central America's problems to those in the US. He

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requested fewer foreign trips to stop the money drain and likened the prospective surcharge in response to balance of payments difficulties to the US surtax and a similar balance of payments problem.

11. El Salvador maintains no diplomatic relations with any Communist country. The USSR was recognized in 1945, but relations were never established.

Subversion

12. The small, illegal Communist Party of El Salvador (PCES) has perhaps 200 active members and an estimated 5,000 sympathizers. The PCES was founded in 1925 and led a bloody uprising in 1932 that was brutally suppressed by then-dictator General Hernandez Martinez. Party leaders realize that they cannot gain power by legal means, and they follow a pro-Moscow "peaceful coexistence" line as the only feasible possibility in El Salvador today. Party members fear repression by the rabidly anti-Communist National Guard commander, Colonel Medrano, and this has curtailed party activities. There is no active insurgency.

13. The Communists operate most successfully through their domination of one of the principal national labor organizations, FUSS, composed of a heterogeneous collection of unions. The FUSS is capable of creating disturbances but cannot, by itself, threaten the country's stability.

14. Although there are occasional reports of funds being sent from Cuba or the USSR, it appears that there has been no significant foreign funding of the movement in recent years.

Security Forces

15. The public security forces are composed of a 2,000-man National Guard and a 1,900-man National Police. They are capable of coping with most threats to internal security. Lack of equipment, including transport, would severely limit

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their capability to cope with sustained disorder, however, especially if commotion spread outside the capital.

16. The public security forces are backed by a 3,700-man army that is considered weak even by Central American standards and could probably offer little resistance to a modern force of equivalent size. They suffer from a variety of ills including excessive turnover of enlisted personnel, a limited and heterogeneous collection of equipment and ammunition, and ineffective leadership. Their capability to conduct sustained combat operations is low.

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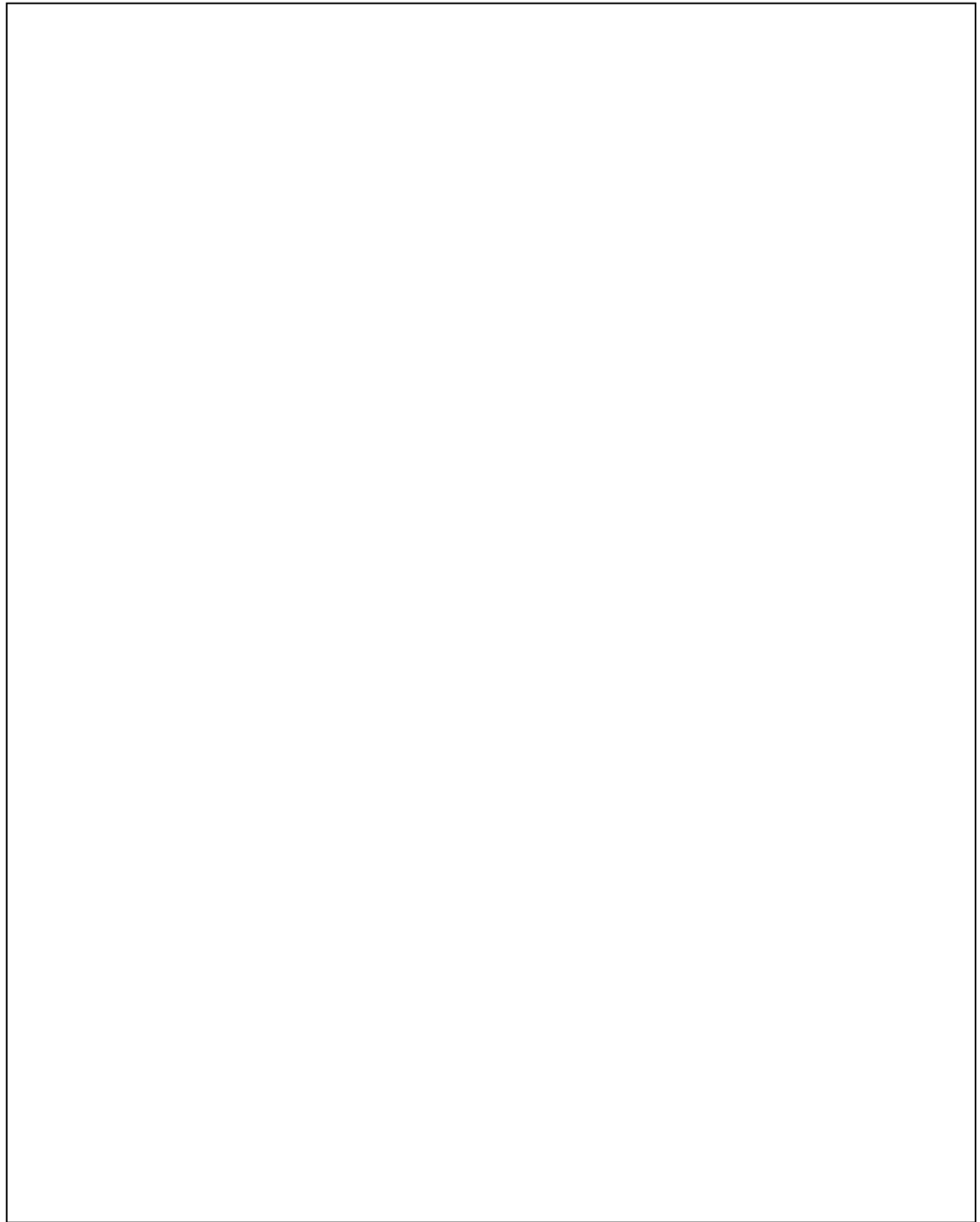
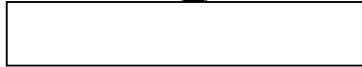
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GUATEMALA

Political

1. On 28 March 1968, Guatemalan politics changed radically. President Julio Cesar Mendez Montenegro relieved three key military men of their posts, and gave Guatemalans a president in fact, as well as in name, for the first time in five years. Guatemalans of all political shades have interpreted Mendez' assertion of authority as an attempt to end the armed forces' constriction on civilian rule.

2. At Mendez' formal inauguration on 1 July 1966, the military caretaker government transferred little power to the elected government, and retained its free hand in anti-Communist counterinsurgency action. Although the army "counterinsurgent" program was effective in reducing insurgency, within a year the program had degenerated into "terrorism," with both sides equally guilty of indiscriminate acts of violence; an estimated 1,000 to 4,000 persons lost their lives. Command changes in the armed forces have been extensive but reaction from the military so far has been mild. Some officers, especially those who have been transferred, are unhappy and there is a new rash of coup rumors. Some military officers believe that the government is reducing pressure on the Communists and that the President must be removed. Plotting is endemic in Guatemala, however, and these conspirators are not believed to have sufficient support for a move at this time. Political tensions have decreased since the military shifts took place and the five-month-old state of alert was allowed to lapse on 16 June.

Economics

3. Living conditions for most Guatemalans have improved little during the postwar period. Both output and consumption, however, increased at an average annual rate of more than six percent from 1963 to 66 because of a sharp expansion in earnings from traditional exports (coffee, cotton, and bananas) and new

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industrial investment induced by the formation of the Central American Common Market.

4. Economic performance under President Mendez has been weak, however, partly because of export problems. In addition to the impact of restrictive credit policies taken to redress the balance of payments, private investment in 1967 suffered from the depressive effects of political uncertainty, and public investment was adversely affected by the President's preoccupation with insurgency. Gross National Product (in constant prices) grew only 3.3 percent, or about the same as population, in 1967.

5. A property tax development program recently was passed by the congress as were several other tax measures, including changes in the income tax structure. The revenue from these taxes will be small compared with the country's vast needs but they are a step in the right direction. In addition, an important, forward-looking Civil Service Act was recently enacted. There has also been growing optimism within the business community in the past several months. The new ministers of economy and finance have begun actively to court business. The government is nearing an agreement with the International Nickel Company for a mining venture in the Lake Izabal area of northeastern Guatemala. This project is expected eventually to infuse several hundred million dollars into the economy. An anticipated moderate recovery in exports should help to push economic growth to four to five percent in 1968 as well as improve the balance of payments. They will not significantly affect the position, however, of the country's poor people.

6. Basic to the economy's lack of dynamism are the deep-rooted conditions of inadequate skilled labor, extensive underemployment, illiteracy, and social and economic immobility. With half the population--the Indians--living outside the money economy in subsistence agriculture, and the bulk of the other half in only slightly better conditions as rural peasants and urban poor, there is little impetus from within the economy to stimulate rapid and sustained growth.

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International Relations

7. Guatemala's foreign policy reflects its traditional close relations with neighboring Central American republics, economic ties with the United States, and anti-Communist attitude. The dispute with Britain over the future of British Honduras (Belize) remains stalemated. After two and a half years of negotiation, the US mediator turned over a draft treaty to the disputants in mid-April 1968. The treaty would have converted the colony into the independent state of Belize and committed it to cooperate with Guatemala in the fields of defense, foreign affairs, and economics. British Honduras rejected the proposals as infringing on its future sovereignty, and the UK followed by stating that it would be guided by sentiment in the colony. The Guatemalans, who have long claimed the territory, have tried to draw out the negotiations, perhaps interminably, rather than work for an immediate solution. The Mendez government believes that it cannot accept the colony's independence without opening itself to opposition charges of capitulation to foreign pressure. Guatemala also seeks an outlet from its northern region across British Honduras to the Caribbean Sea. In addition, many Guatemalans fear that the virtually unpatrolled coastal region might someday be used as a subversive foothold. Independence for the colony is inevitable and the UK may be willing to make a face-saving gesture to Guatemala to make the move more palatable.

8. Guatemala has been friendly and cooperative with the United States in both the OAS and the UN. Its consistent support of the West on international issues is expected to continue. Guatemala has been a leader of the movement toward Central American integration and is the first Central American country to have ratified all agreements on economic integration. Guatemala has no diplomatic relations with Communist countries, but commercial ones may be established in an effort to alleviate the large coffee surplus.

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Subversion

9. In the recent past Guatemala has been faced with threats from the right as well as the left. Right-wing organizations that had existed since Mendez' inauguration in July 1966 seem to be under control, at least temporarily. Several of these groups were army-sponsored but have apparently been disbanded since the military command shifts took place in late March. The right-wing National Liberation Movement may still have an organized paramilitary group but it has not been active recently. The main subversive threat comes from the Communist Guatemalan Labor Party (PGT) and their former paramilitary arm, the Communist Rebel Armed Forces (FAR).

10. In mid-January two US Military Assistance Group officers in Guatemala City were assassinated by the FAR. At about the same time the PGT and the FAR split because PGT Leaders did not want to push violence. Since the split, the FAR guerrillas--approximately 200 men--have been relatively quiet as they conduct training, set up support networks to replace those that were destroyed last year, and prepare generally to renew guerrilla warfare. Four bombs that exploded in Guatemala City in June apparently were placed as a FAR training exercise. The explosions on 9 June created panic among security forces and set off a shooting spree between police and army troops which accidentally killed two police officials and wounded three others.

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guerrilla activity may be renewed very soon. A small group within the FAR was dissatisfied because of a lack of activity against the government and was planning to begin action on its own. To appease these dissidents, FAR leader Yon Sosa agreed to renew terrorism. Current targets are high-ranking military officers and rightist politicians. FAR guerrilla groups have again been noted active in northeastern Guatemala--the traditional guerrilla area--for the past month, and a guerrilla patrol was ambushed by the army in mid-May. Four of the six guerrillas killed were said to be important FAR leaders. Recent reporting indicates that there has been an increase in

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guerrilla activity in that area and several new clashes have occurred. Two Cubans are reported to be operating with the FAR.

12. The PGT has reportedly formed a new paramilitary arm. The new group will be identified by the same initials (FAR) as Yon Sosa's guerrillas. The organization, strength, and source of funding has not yet been determined. The illegal PGT has about 1,200 members and 3,000 to 4,000 sympathizers. Although the party has been subjected to continual damage by effective government raids, it maintains itself through its well-trained leadership and its hard core of disciplined members who have in the past been able to reorganize and resume activities.

Security Forces

13. The 13,300-man armed forces have dealt a serious blow to the Communists in the past year. If the Communists mount an effective, widespread campaign, however, the military could have difficulty handling the situation. Under these circumstances, they might act against the Mendez government and establish a military regime.

14. The new commanders who replaced those shifted in March are unknown factors. Many are not as capable or aggressive as those they replaced. Younger officers are reported to be unhappy with Mendez' decision to ban the government-sponsored clandestine counterterrorism and to rely solely on overt military counterinsurgency. They regard Defense Minister Chinchilla as weak.

15. Since the government's reduction of extralegal activity against the guerrillas, the 3,000-man civilian counterterrorists in Zacapa have not been active and the government would like to disarm them. These counterterrorists could become a potential threat to Mendez if he tries to disband them.

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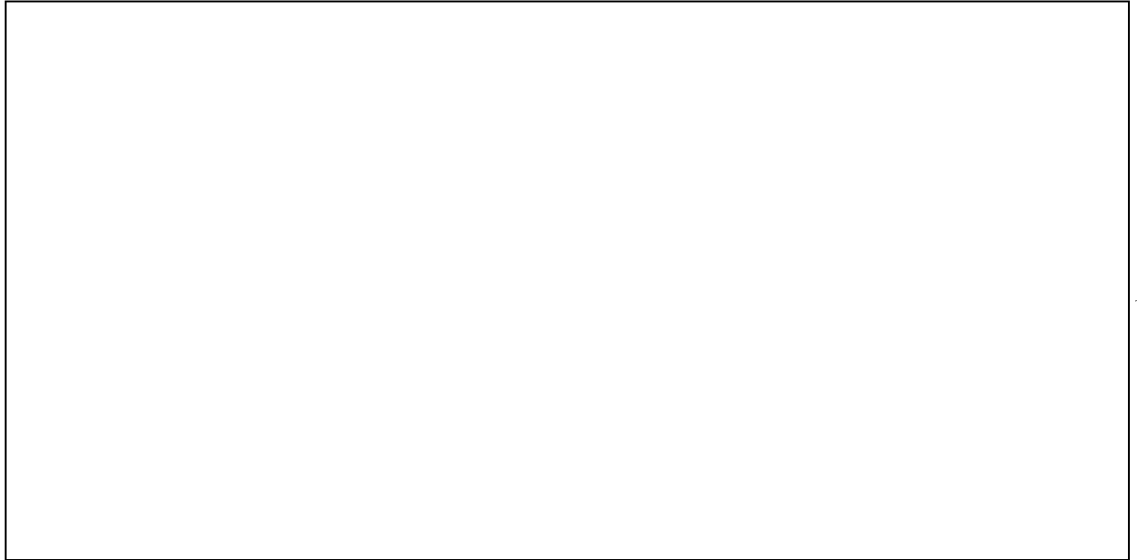
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HONDURAS

Political

1. President Oswaldo Lopez Arellano came to power following a military coup that he led on 3 October 1963. In 1965, he was "elected" constitutional president for a six-year term by the Nationalist Party - dominated Constituent Assembly. Since Lopez took office in 1963, his government can boast of achieving a measure of stability, financial soundness, some orderly economic planning, and the beginning of a professional civil service system. Corruption is rampant, but it is neither new nor unexpected in Honduras.

2. The country's political tempo stepped up briefly prior to and immediately following the municipal elections of 31 March 1968. The opposition Liberal Party, the country's traditional majority party, lost heavily in a contest that was characterized by widespread fraud and repression engineered by Lopez' right-hand man, Minister of the Presidency Ricardo Zuniga. Liberal leaders tried unsuccessfully to organize a countrywide protest to force the President to annul the elections and fire [redacted] Zuniga. The Liberals threatened to withdraw from the few government positions they held, and to order their municipal winners to refrain from accepting their posts. Only two of the 25 Liberal deputies followed party orders and withdrew from the unicameral legislature, however, and most of the municipal posts were finally accepted by those Liberals elected to them.

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3. Events of the last few months have again pointed up the fact that the Liberals have little ability to influence the government, and President Lopez can no longer maintain the fiction that he is leading a "regime of conciliation." The Liberal leaders' inability to maintain party discipline, moreover, has weakened them and has dimmed the prospects for a viable two-party system. Zuniga's removal would do much for the prestige of the

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President, who has always claimed to be apolitical, as well as prove that Lopez is serious about uniting the country. He is not likely to take such action, however, because of his dependence on Zuniga. Zuniga's control of the Nationalist Party machine and his ability to rig elections will help him to achieve his ambition--succeeding Lopez in the presidency.

Economic

4. Although it is making gradual progress, the Honduran economy is one of the most backward in Latin America, and in recent years has been especially vulnerable to a number of critical developments. The moderately high rate of economic growth in 1965 and 1966 (about six percent) trailed off in 1967 to 3.8 percent, just slightly higher than the country's rate of population growth. This slowdown was caused principally by a decline in major exports of bananas and coffee, and the insufficiency of government investments. There is widespread confidence that the economic situation will improve in 1968. The optimism is based on indications that public investment in road building will be significantly accelerated and that increased banana and coffee exports will bring a rise in over-all exports of between 10 and 12 percent. Despite increased exports, the current accounts balance of payments deficit, nevertheless, should rise because of increased capital goods imports. The GNP growth rate for 1968 is estimated at almost six percent in real terms or about 2.2 percent per capita. Prices should rise about two percent.

5. Only slight progress has been made on the basic economic problems. Communications and power resources, although recently improved, are still among the least adequate in Latin America. Agriculture, which provides a livelihood for about 70 percent of the population, suffers from antiquated techniques and inadequate credit, marketing, storage, and transportation facilities.

6. Honduras is a member of the Central American Common Market, but it will derive only limited benefits from the Market until it is able to compete

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better with its more industrialized neighbors. Honduran trade with the Communist countries is negligible, and the government is not making any effort to expand the commerce.

International Relations

7. Two long-standing foreign disputes flare-up periodically. One is with the United States over the sovereignty of the Swan Islands in the Caribbean and the other over an undemarcated border with El Salvador. Since May 1967, border tensions have risen periodically, especially during the last month, but no conflict is expected. Both countries have been slow to suggest means to resolve the dispute and persons taken captive in the dispute still remain captive. Some face-saving solution will probably be worked out, however.

Subversion

8. The small Honduran Communist Party, with about 300 members and 1200 sympathizers, is split into two factions and is not very effective. Party leaders fear government repression and are careful to keep themselves and the party out of the limelight. Several guerrilla organizations, which were active shortly after Lopez took office in 1963, have since been disbanded. Over 70 Hondurans have received guerrilla training in Cuba, and the Communist Party receives limited travel funds from Havana. Guatemalan guerrillas operating in north-eastern Guatemala have crossed into Honduras when seeking refuge. Last year, Honduran military patrols clashed with guerrillas on a few occasions.

Security Forces

9. The Honduran Army numbers about 4,700 men, the air force about 350, and the Special Security Corps (police) approximately 3,000, scattered throughout the country. The army maintains two US-trained and equipped battalions in or near the capital, but the bulk of its forces are widely dispersed. The air force is concentrated in the Tegucigalpa area. The armed forces are

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capable of coping with any internal Communist threat but would be hard pressed to cope with well-organized, widespread subversive activity, or with a revolution receiving substantial outside support. The Honduran Army has recently shown that it can defend the country's borders. In May 1967, the military reacted to the Salvadoran border threat with a degree of rapidity and competence that surprised most observers.

10. In the past few months, President Lopez has been recruiting and equipping a 1,000-man "presidential guard" to be under his personal command. There are some indications that he is creating this force in order to stay in power after his term expires in 1971.

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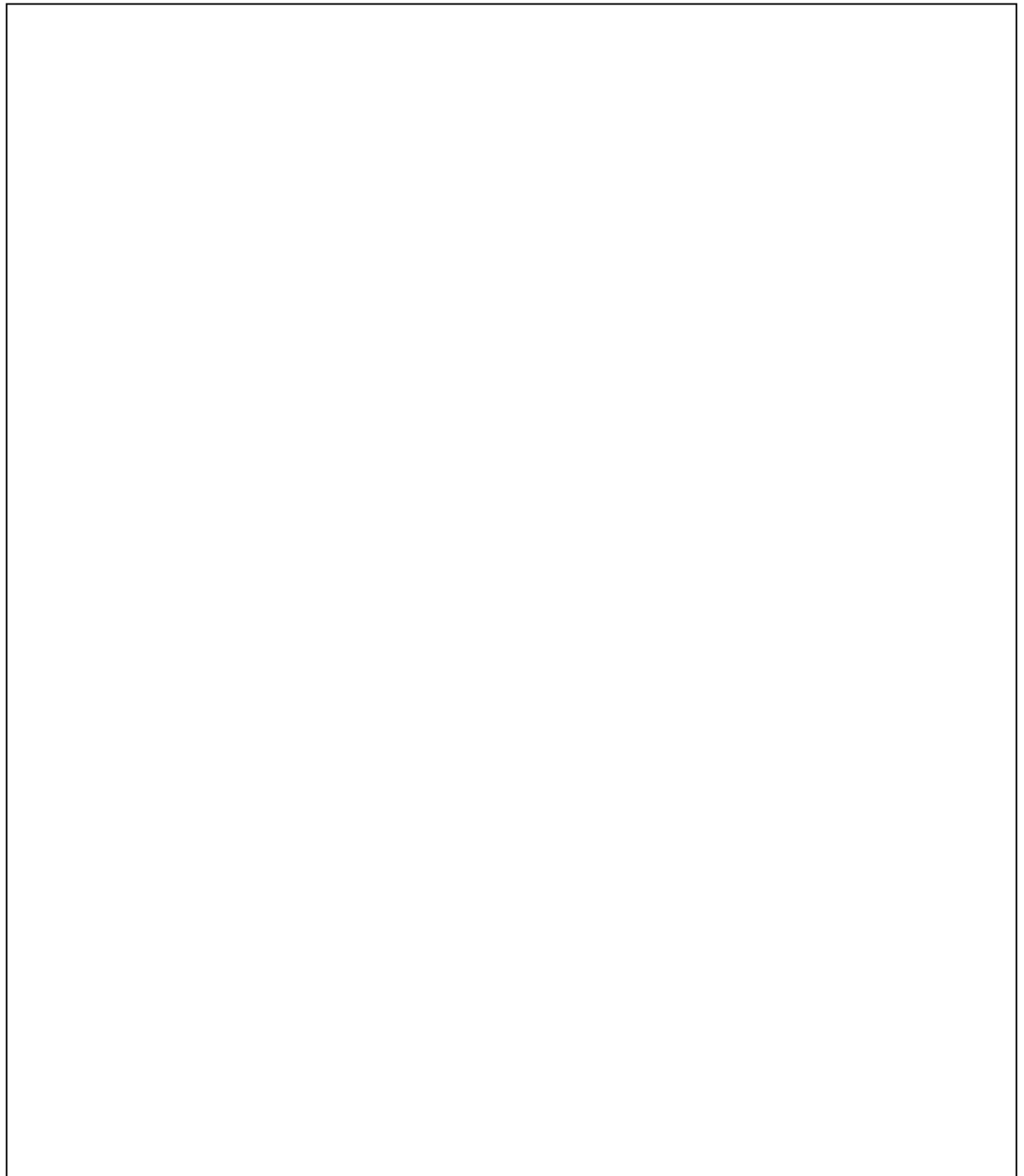
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NICARAGUA

Political

1. President Anastasio Somoza, inaugurated in 1967 for a five year term, continues the 30-year Somoza family tradition of providing political stability imposed through the ruling Nationalist Liberal Party (PLN) and the National Guard. Somoza follows both his father, who was assassinated in 1956, and his brother, who died in 1967, to the presidency.

2. The February 1967 presidential election and preceding campaign were marked by fairly widespread irregularities. Voter lists were inflated and the opposition touched off pre-election rioting in January 1967 which left some 60 people dead. General Somoza and the PLN obtained 74 percent of the vote, but part of the total was undoubtedly due to tampering with the electoral machinery. Somoza probably would have won a fair election, but his victory margin would have been narrower.

3. Latent bitterness over continued Somoza rule, reinforced by the president's sometimes heavy-handed manner, is a potentially divisive political factor. If President Somoza moves to extend his term beyond the constitutional limit, he could stir opposition from within his own party. Anti-Somozaism is also the rallying cry for opposition political elements, especially for the Traditionalist Conservative Party (PCT). The conduct and result of the 1967 election reinforced the belief of opposition leaders that they cannot come to political power by democratic means.

4. President Somoza exercises direct control over the National Guard, the country's only armed force. In his year in the presidency, Somoza has proven to be capable, if sometimes tactless. The country's vested interest groups, despite latent dissatisfaction, probably prefer the stability of the Somozas to any available alternative. Somoza's death,

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by assassination or natural causes, might give rise to temporary unrest. The National Guard and the ruling political factions, however, would probably unite behind a single individual in the regime as a temporary replacement.

Economic

5. After five years of rapid economic growth that averaged eight percent annually, the Nicaraguan economy faltered in 1966 and 1967, when the gross national product (GNP) increased 3.1 percent and 4.3 percent respectively. In per capita terms, GNP growth has virtually stagnated since 1965. Lagging production of agricultural exports because of drought was largely responsible for the slowed growth. Cotton, which accounts for approximately one half of all exports, and coffee, have been affected, moreover, by insect infestation and other causes of rising production costs. Higher world market prices for cotton and a large coffee crop should moderately improve the country's recently poor balance of payments performance. GNP, however, probably will increase only at about the same rate in 1968 as in 1967.

6. Nicaragua's rising trade deficit with members of the Central American Common Market (CACM) has prompted the government to adopt a more demanding attitude in negotiations with other CACM members. The government recently indicated the market would fall apart if the San Jose protocol, largely a surcharge proposal and presently under consideration by the individual country legislatures, is not adopted. The government is trying to maintain a stable price level and is counting on increased investment--especially in agriculture--and diversification to revive growth rates.

International Relations

7. Nicaragua's international relations are characterized by a staunch anti-Communist, pro-US stance. The government supplied troops to the Dominican peace-keeping force in 1965. Its offer earlier this year to send a small contingent for duty in Vietnam underscores its position.

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8. Although the Somozas have in the past been accused of meddling in the affairs of neighboring countries, relations with the Central American countries have been generally good for the last few years. President Somoza would undoubtedly like to be looked upon as the leader of the Central American bloc. The only Communist country with which Nicaragua maintains diplomatic relations is Poland. The Polish ambassador to Nicaragua, however, resides in Mexico where he is also accredited, and has not visited Nicaragua since presenting his credentials over four years ago.

Subversion

9. The potential for subversion and disorder appears very limited at the present time and stems from the opposition Tradionalist Conservative Party (PCT) and the very small pro-Castro guerrilla organization, the Sandinist National Liberation Front (FSLN). The PCT has shown itself capable of inciting public violence. The pre-election disorders of January 1967, which took 60 lives, were planned by PCT leaders. These same leaders still control the party, but their present activities are directed toward internal party conflict.

10. The FSLN is dedicated to the establishment of a Castro-style type of government in Nicaragua. It has received some financial support, training and guidance from Cuba. However, the FSLN received a severe setback late last summer in guerrilla encounters with the National Guard. An ensuing FSLN urban campaign was also easily defeated. The organization lost about 20 men, including some top leaders. Its ranks, probably not more than 75 to 100 men at the time, were thinned both by its losses and its resulting loss of attractiveness for university students.

11. The Communist party is weak and divided and its total membership is no more than 200 to 250 persons. The party itself is illegal and its principal front organization, the Republican Mobilization (MR) is now defunct. The party has officially

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split into groups of hard-liners and soft-liners which further undermines its effectiveness. Both factions, however, claim to represent the "official" Moscow party and profess a generally nonviolent line.

Security Forces

12. Nicaragua's 5,900-man National Guard is the nation's only armed force, performing both military and police functions. The Guard is a fairly effective force, by Central American standards, and is capable of maintaining internal security, barring substantial external support for a domestic uprising. Nearly half of the Guard strength and the bulk of the two tactical battalions are stationed in Managua. The Somoza family has effectively commanded the Guard for over three decades. President Somoza presently exercises direct supervision over the Guard and his half-brother commands the Presidential Guard, one of the two tactical units. Guard loyalty has been ensured by the benefits accorded its members, although there have been rumblings of discontent over the upcoming 1969 retirement of the first Nicaraguan military class.

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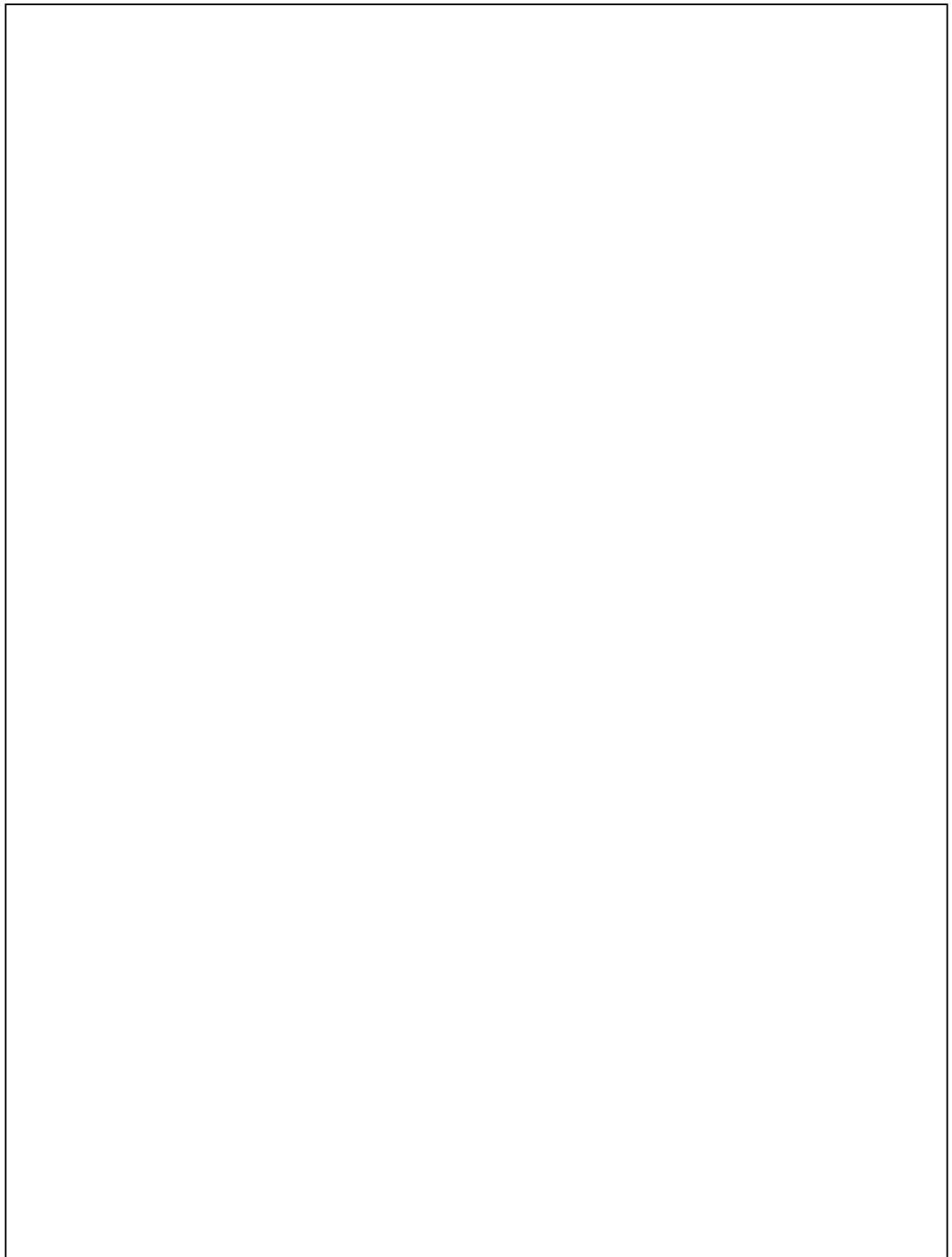
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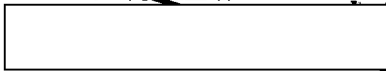


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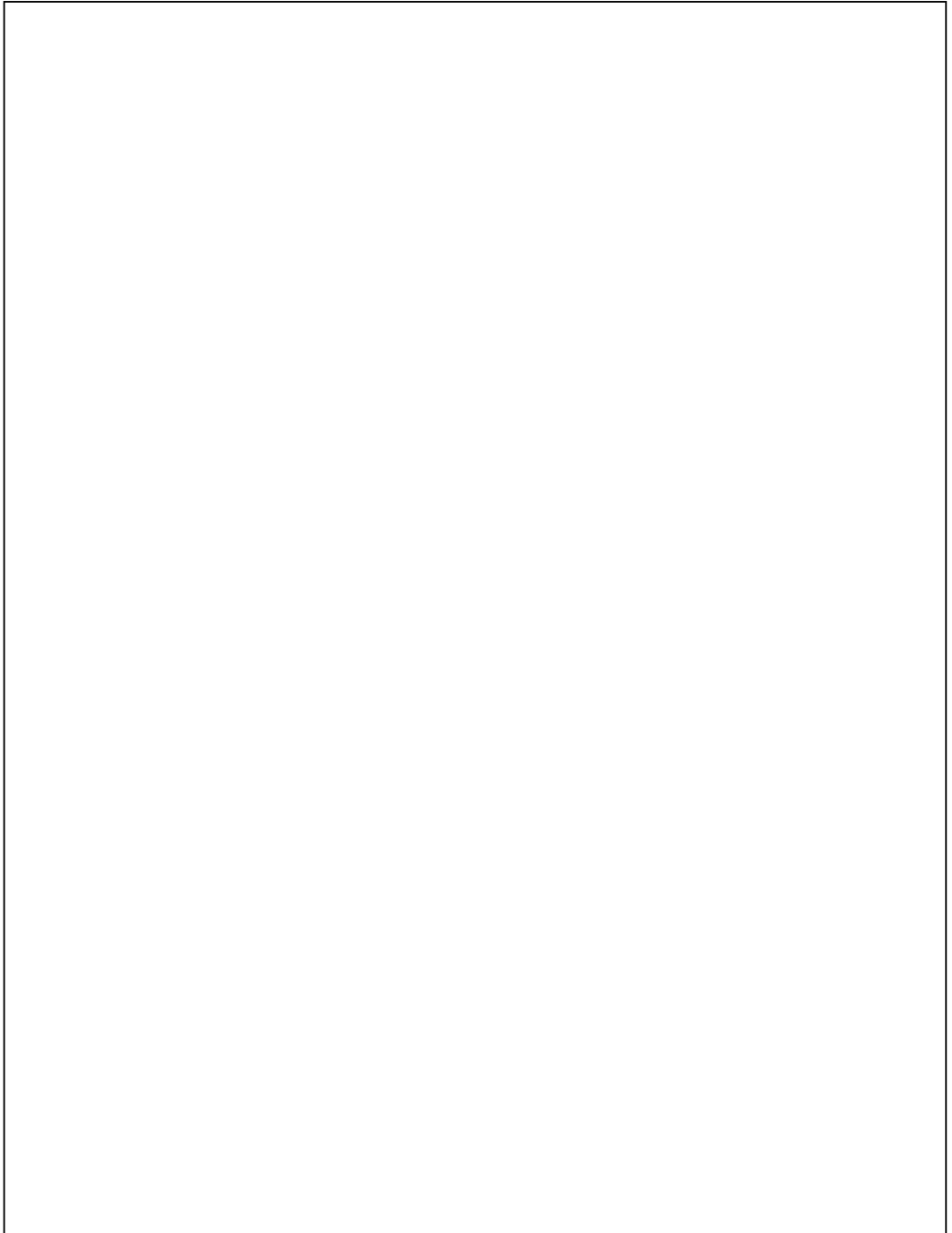


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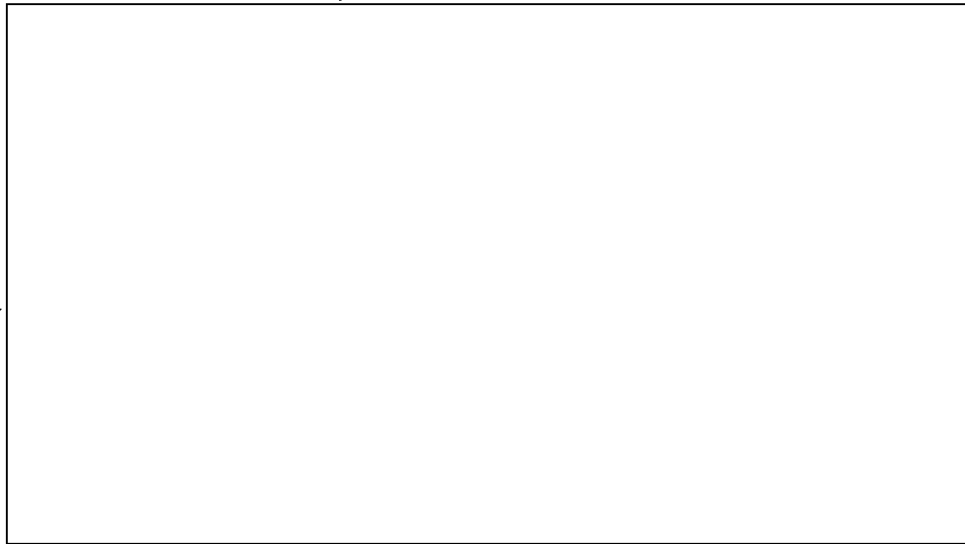


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CENTRAL AMERICAN COOPERATION

1. Sentiment for Central American cooperation dates back to the time of independence from Spain. The Central American nations originally formed a single confederation in 1823, but the arrangement broke apart in the 1830's. Later efforts aborted also. The persistence of the integrationist ideal is illustrated, however, by the El Salvadoran Constitution which authorizes the executive to join a confederation without legislative approval if such a movement develops.

2. The most important regional organizations today are the Organization of Central American States (ODECA), established in 1951, and the Central America Common Market (CACM), established in 1961. Nicaragua, El Salvador, Guatemala, Honduras, and Costa Rica are members of both organizations. Panama is a member of several non-economic ODECA organizations, but is not a member of the CACM. There are a number of other regional bodies, including a regional defense organization (CONDECA), which facilitates the flow of military security information among the capitals and which this year held a joint military maneuver. Subsidiary organs of ODECA such as a Legislative Council and a Central American Court of Justice have also been established, but have done little. The emphasis in the integration movement, however, is on the economic aspects of cooperation; integration probably will succeed or falter with the CACM.

3. CACM was established under favorable economic circumstances. Per capita CNP for the five countries had practically stagnated from 1958 to 61, but rose on the average of 3 percent annually from 1962 to 1966. This growth was stimulated as much by high export earnings as by increased investment opportunities arising from the establishment of a common external tariff and the abolition of almost all internal tariffs. In 1967, however, the CACM countries experienced approximately a 5 percent fall in extra-regional export earnings, and regional GNP growth dropped to about the same rate as population

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expansion. Poorer agricultural export earnings because of bad weather and falling prices contributed to the decline. The poor 1967 economic performances will probably continue for a year or so, contributing to balance of payments pressures for all members.

4. The most immediate problem of the CACM centers on the San Jose Protocol which calls for imposition of a 30 percent tariff surcharge on trade with non-CACM members. Nicaraguan President Somoza, among others, has pushed hard for this measure because of his country's balance of payments and fiscal problems. His economy minister reputedly has said that Nicaragua might break up the market if the measure is not approved by the individual country legislatures. Some of the countries, however, face greater internal problems, in part because of the Somoza "threat" in securing legislative ratification of the additional tax measure before any one country can institute the change. Initial reports indicate that Nicaragua, contrary to rules of the protocol, has already instituted the surcharge. Such a move could be counterproductive, and if other countries fail to ratify, it would severely strain the Common Market bond.

5. The next few years will be a severe test for the integration movement. Nationalistic and parochial interests, including the critical need of each government to improve its fiscal performance, will hamper integration. Another obstacle is the increasingly evident fact that the market area is simply too small to provide a continuing stimulus to new investment. This problem can probably be resolved only within the context of the Latin American integration movement. Other obstacles to integration are the institutional deficiencies of the principal regional organizations and the competitive rather than complementary nature of the economies of the Central American countries.

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